

Message Text

UNCLASSIFIED

PAGE 01 SEOUL 07102 231015Z

14

ACTION EA-14

INFO OCT-01 ISO-00 AID-20 CIAE-00 COME-00 EB-11 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 SPC-03

CIEP-02 LAB-06 SIL-01 OMB-01 L-03 DRC-01 PA-04 USIA-15

PRS-01 IO-14 /129 W

----- 052567

R 230803Z OCT 73

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 656

UNCLAS SEOUL 7102

E.O. 11652: N/A

TAGS: EFIN, KS

SUBJ: NEW NATIONAL INVESTMENT FUND TO FINANCE HEAVY
INDUSTRY

REF: A. SEOUL 4791 B. SEOUL 6939

C. CERP

SUMMARY: ROKG HAS PRESENTED TO NATIONAL ASSEMBLY PLAN FOR
FINANCING HEAVY AND CHEMICAL INDUSTRY DEVELOPMENT IN
1973-81 THROUGH NATIONAL INVESTMENT FUND (NIF) EXPECTED
BEGIN OPERATION JANUARY 1974. FUND IS MAJOR PART OF DEVE-
LOPING OVERALL PLAN FOR MOBILIZING AND CHANNELING GREATLY
INCREASED DOMESTIC SAVINGS INTO INVESTMENT NEEDED TO
ACHIEVE AMBITIOUS 1981 DEVELOPMENT TARGETS. END SUMMARY.

1. PURPOSE: AS DESCRIBED REF A, NEW ROKG 1973-81 DEVELOP-
MENT STRATEGY CALLS FOR EMPHASIS ON HEAVY AND CHEMICAL
INDUSTRIES, WHICH WILL ACCOUNT FOR 23 PERCENT OF GROSS
INVESTMENT. AT SAME TIME DOMESTIC SAVING IS EXPECTED TO
INCREASE VERY RAPIDLY AND TO FINANCE 90 PERCENT OF 1973-81
GROSS INVESTMENT. ROKG IS IN PROCESS OF DEVELOPING BROAD
PROGRAMS TO INCREASE HOUSEHOLD, CORPORATE AND GOVERNMENT
SAVING THROUGH SUCH MEANS AS PROMOTION OF CAPITAL MARKETS
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 SEOUL 07102 231015Z

AND RURAL SAVING AND NEW NATIONAL WELFARE PENSION FUND

(REF B). FOR NEW HEAVY INDUSTRIES MINISTRY OF FINANCE (MOF) HAS PROPOSED ESTABLISH NATIONAL INVESTMENT FUND TO PROVIDE LONG-TERM SOFT LOANS TO SUPPLEMENT ASSUMED EQUITY AND FOREIGN LOAN FINANCING NIF FUNDS WILL BE GENERATED PRINCIPALLY BY INSTITUTIONAL PURCHASE OF ITS BONDS. THEY WILL BE USED MOSTLY FOR INVESTMENT IN PLANT AND EQUIPMENT, BUT ALSO FOR WORKING CAPITAL AND MEDIUM/LONG TERM FINANCING OF EXPORT TRANSACTIONS. ROKG ALSO CONTEMPLATES PURCHASES OF LAND FOR PLANT SITES WITH NIF BONDS.

2. OPERATION: DURING 1974-81 FUND WILL CHANNEL ESTIMATED THREE TRILLION WON IN LOW-INTEREST LOANS (PROBABLY 8 PERCENT) TO HEAVY AND CHEMICAL INDUSTRIES THROUGH KOREA DEVELOPMENT BANK AND COMMERCIAL BANKS. FUND WILL PROVIDE ALMOST HALF OF ESTIMATED 1973-81 HEAVY INDUSTRY GROSS FINANCING REQUIREMENT OF 6.4 TRILLION WON (OF WHICH 4.5 TRILLION FIXED INVESTMENT) EXPRESSED IN "CURRENT PRICES" (ANNUALLY INFLATED BY FIVE PERCENT). BALANCE ESTIMATED COME ALMOST EQUALLY FROM CORPORATE SELF FINANCING (INCLUDING NEW SECURITIES) AND NET FOREIGN FUNDS (ABOUT \$4.25 BILLION IN ESTIMATED CURRENT PRICES). ROKG BUDGET WILL PROVIDE 27 PERCENT OF NIF REQUIREMENTS ON INTEREST-FREE BASIS, THUS PERMITTING LOWER INTEREST RATES. HEAVY INDUSTRIES WILL ALSO BENEFIT FROM RECENTLY ANNOUNCED TAX BENEFITS.

3. NIF BONDS: BALANCE OF FUNDS WILL COME FROM PURCHASE OF NIF BONDS BY SAVINGS INSTITUTIONS AND PUBLIC FUNDS, PLUS ABOUT 13 PERCENT BY PRIVATE INVESTORS. BONDS TO BE LONG TERM (ABOUT EIGHT YEARS), YIELDING AT LEAST AS MUCH AS SAVINGS DEPOSIT RATE (CURRENTLY TWELVE PERCENT), GUARANTEED BY ROKG, AND DESIGNED TO BE FREELY TRADED IN CAPITAL MARKET. IN FUTURE THEY WILL BE CONVERTIBLE INTO NEW SHARES OF DESIGNATED FIRMS WHICH WOULD PAYOFF PREVIOUS NIF LOANS WITH BONDS THUS ACQUIRED. BANK SAVINGS WILL FINANCE LARGEST PURCHASES, ESTIMATED AT 900 BILLION WON OR 41 PERCENT OF TOTAL, THROUGH EARMARKING 20 PERCENT OF NEW TIME AND SAVINGS DEPOSITS FOR NIF BONDS. PROPOSED NATIONAL WELFARE PENSION FUND EXPECTED BE SECOND LARGEST SOURCE (NEARLY 400 BILLION WON). A RISING PROPORTION OF RESOURCES OF NATIONAL SAVINGS ASSOCIATIONS AND ALL NEW POSTAL SAVINGS AND SURPLUSES OF VARIOUS PUBLIC FUNDS ARE UNCLASSIFIED

UNCLASSIFIED

PAGE 03 SEOUL 07102 231015Z

TO BE INVESTED IN NIF BONDS, AS WELL AS SOME FUNDS FROM INSURANCE AND TRUST SOURCES. TO DISPEL WIDESPREAD FEARS OF COMPULSORY PURCHASES ROKG SPOKESMEN HAVE EMPHASIZED THAT BONDS WILL BE VOLUNTARY AND NEGOTIABLE. WHILE THIS WILL BE TRUE OF PRIVATE PURCHASES, INSTITUTIONS WILL BE UNDER PRESSURE TO BUY BONDS AND INDIVIDUALS TO INCREASE BANK DEPOSITS, AS IN RECENT ROKG DECISIONS TO PURCHASE GRAINS AND PAY GOVERNMENT EMPLOYEES IN PART WITH BANK DEPOSITS.

4. COMMENT: PLAN FOR NATIONAL INVESTMENT FUND TO FINANCE HEAVY AND CHEMICAL INDUSTRY REQUIREMENTS HAS BEEN DEVELOPED OVER PAST SIX MONTHS AND IS CLEARLY CRUCIAL ELEMENT IN ROKG EFFORT TO MOBILIZE VAST INCREASE IN DOMESTIC SAVINGS NEEDED TO ACHIEVE 1981 DEVELOPMENT TARGETS. EXCEPT FOR PROPOSED NEW SOCIAL SECURITY SCHEME, MOST ASPECTS OF NIF FUNDING AND LENDING OPERATIONS REMAIN TO BE WORKED OUT IN DETAIL. ALTHOUGH 1974 TARGET BUDGET DOES NOT PROVIDE FOR 46 BILLION WON CAPITAL SUBSCRIPTION TO NIF, AS INITIALLY CONTEMPLATED, 33 BILLION BUDGETED FOR HEAVY INDUSTRY INVESTMENT (COMPARED TO 3 BILLION IN 1973) IN ADDITION TO 3 BILLION WON IN NIF INTEREST SUBSIDY AND 10 BILLION WON IN TEMPORARY BORROWING FROM BOK.

5. TRANSMITTING BY AIRGRAM BOOKLET PREPARED BY MOF DESCRIBING NIF AND OTHER ASPECTS OVERALL ROKG SAVINGS STRATEGIES FOR 1973-81, WHICH WAS MADE AVAILABLE TO IBRD TEAM BUT HAS NOT YET BEEN RELEASED TO PUBLIC.
HABIB

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INDUSTRY, ECONOMIC DEVELOPMENT, INVESTMENT PROGRAMS, CENTRAL GOVERNMENT, CENTRAL LEGISLATURE, APPROPRIATIONS
Control Number: n/a
Copy: SINGLE
Draft Date: 23 OCT 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973SEOUL07102
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: n/a
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19731017/aaaaamft.tel
Line Count: 135
Locator: TEXT ON-LINE
Office: ACTION EA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators:
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: A. SEOUL 4791 B. SEOUL 6939
Review Action: RELEASED, APPROVED
Review Authority: martinjw
Review Comment: n/a
Review Content Flags:
Review Date: 05 DEC 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <05-Dec-2001 by bryansd0>; APPROVED <05-Feb-2002 by martinjw>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: NEW NATIONAL INVESTMENT FUND TO FINANCE HEAVY INDUSTRY
TAGS: EFIN, KS
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005